

AR47

Asbestos Corporation Limited Société Asbestos Limitée

Annual Report 1980



Asbestos Corporation Limited **Société Asbestos Limitée**

(Incorporated under the laws of Canada, 6 October 1925)

Directors

P.-E. AUGER, Eng., Ph.D.^{(1) (3)}
Consultant Geologist
Québec

R. A. DUGRÉ^{(1) (2)}
President, École de
technologie supérieure
Montréal

G. W. FISKE⁽¹⁾
Executive Vice-President — Commercial
General Dynamics Corporation
St. Louis, Missouri

F. R. KEARNS^{(1) (2)}
President, Canadair Limited
Montréal

G. E. MacDONALD
Executive Vice-President — Finance
General Dynamics Corporation
St. Louis, Missouri

G. A. McCAMMON⁽³⁾
Vice-President — Finance
Montréal

M. J. O'BRIEN^{(1) (3)}
President, Marblehead Lime Company
Chicago, Illinois

W. G. SULLIVAN^{(2) (3)}
Vice-President — Industrial Relations
General Dynamics Corporation
St. Louis, Missouri

M. E. TASCHEREAU⁽³⁾
President and Chief Executive Officer
Montréal

Executive Officers

G. W. FISKE
Chairman

G. E. MacDONALD
Vice-Chairman

M. E. TASCHEREAU
President and Chief Executive Officer

W. B. R. CALLAN
Vice-President — Operations

J. GAUDRY
Vice-President — Sales and Marketing

B. C. JULIEN
Vice-President — Corporate Relations

G. A. McCAMMON
Vice-President — Finance

J. M. ROUSSEAU
Vice-President, Secretary and General
Counsel

Transfer Agents and Registrar:
The Royal Trust Company
Montréal, Toronto and Calgary

Auditors:
Price Waterhouse & Co.
Montréal

Head Office

1940 Sun Life Building
1155 Metcalfe Street
Montréal, Québec, Canada H3B 2X6

Subsidiary Companies:

ANCHOR HOLDINGS LIMITED
(Incorporated under the laws of the
Bahama Islands, 25 January 1962)

ASBESTOS CORPORATION GmbH
(Incorporated under the laws of the
Federal Republic of Germany, 4 July 1970)

MINOREX LIMITED
(Incorporated under the laws of
Canada, 19 March 1951)

(1) — Member of the Finance and
Audit Committee

(2) — Member of the Compensation Committee

(3) — Member of the Pension Committee

(December 31, 1980)

COVER:

Bags of Thetford Mines asbestos
fibre. Fibre grades 4T and 6D are
used extensively in the asbestos-
cement industry.



**Remarks by
Guy W. Fiske, chairman
and M. E. Taschereau, president,
Asbestos Corporation Limited
— Société Asbestos Limitée
At the Special and
Annual General Meeting
of Shareholders
Montréal, Québec**

May 7, 1980

**SOCIÉTÉ ASBESTOS LIMITÉE
ASBESTOS CORPORATION LIMITED
1940 Sun Life Bldg., 1155 Metcalfe St.,
Montréal, Québec H3B 2X6**

Remarks by Guy W. Fiske, Chairman, Asbestos Corporation Limited — Société Asbestos Limitée

Welcome to the 54th annual shareholders meeting of Asbestos Corporation Limited. My name is Guy Fiske and I am Chairman of your Company.

The operational highlights and financial results for 1979 and the first quarter of 1980 will be reviewed a bit later in the meeting by our President and Chief Executive Officer, Maurice Taschereau.

I intend to limit my remarks and to share my thoughts with you on the threatened expropriation of your Company by the Government of Québec. For the past three years we have been fighting to save our Company from takeover by the Province of Québec. In doing so, we hope that our efforts may have helped other businesses in this province (and in Canada), and perhaps to have struck a blow for free enterprise generally.

At our annual meeting in May 1979, I explained why General Dynamics did not want to dispose of its holdings in ACL. That same explanation holds true today — Asbestos Corporation is a valuable company with an exceptional record of growth and progress unparalleled in the asbestos mining industry of Québec. In addition, I reviewed the reasons advanced by the Government for the threatened takeover and showed how their actions would be detrimental to the citizens of Québec, the employees and the shareholders. It should now be obvious to everyone that the proposed action by Québec is detrimental for all of Québec.

Looking back on the last two years, I can think of nothing more that ACL could have done

in an effort to satisfy the demands of the Québec Government, other than to encourage its shareholders to sell out at a grossly unfair price. The Government of Québec, moreover, has refused to consider advantageous alternatives and inexorably forced Asbestos Corporation into the one place where the rights of all citizens are protected — the courts.

In December 1979, the Québec Court of Appeal issued an interlocutory injunction ordering the Government of Québec to refrain from carrying out any expropriation measures concerning ACL until final judgement is rendered in the action challenging the validity and constitutionality of the law to expropriate any or all of ACL's assets.

Last month this action was heard by the Honourable Jules Deschênes, Chief Justice of the Québec Superior Court. The decision has not been announced.

That's the legal situation, but what is the status of the business negotiations between the parties?

You no doubt remember that at this time last year, the Government had tabled the law to expropriate ACL, and second reading took place shortly thereafter. On June 22, 1979, the Bill to expropriate was adopted by the National Assembly. On September 21, 1979, the Government formally offered General Dynamics \$42 per share of ACL. On October 4, 1979, the Board of Directors of General Dynamics rejected the offer as "totally without merit". There have been no discussions with respect to the sale of the stock since then.

Previous to October 1979, there were several discussions between myself and Mr. Parizeau,

Minister of Finance. Several alternatives were presented to the Government, including offers to joint venture new asbestos mines and to cooperate in two specific manufacturing projects that we felt could be viable. In addition, General Dynamics presented a concept that would allow the Government to acquire a controlling interest in ACL over time, with all of the advantages that this would imply. In all discussions, it became abundantly clear that the Government wanted to purchase the common shares of ACL at a grossly understated price. There were never any negotiations of substance on these constructive and positive alternatives.

During the past three years, the financial results of ACL have been excellent, despite the very difficult position we've just discussed.

Unfortunately, the first quarter results of this year haven't been as good, due to the impact of a strike which is now into its 11th week, and lower sales due to the failure of our other Québec competitors to follow ACL's price increases. The fact is that these increases are needed by the entire industry to cover inflationary cost increases. Since most of them are fabricators and we are not, we could presume that their profits are made elsewhere. ACL's are generated here, and the earnings of ACL contribute very directly to the Province in the form of taxes. There is no diversion because of fabrication of asbestos products in some other country and I think it is about time for the Government of Québec to recognize that ACL is the best corporate citizen of this industry. Moreover, Asbestos Corporation is the only company in the asbestos industry in which Quebecers have an ownership interest.

Mr. Taschereau, President and Chief Executive Officer of ACL, will now tell you more

about the current situation and the promising outlook for the future.

Remarks by M. E. Taschereau, President, Asbestos Corporation Limited — Société Asbestos Limitée

It is indeed a pleasure for me to welcome all of you to the 54th annual shareholders meeting of Asbestos Corporation Limited.

Today, I have both good and bad news to share with you. The good news is that last year's results, which you already know, improved compared with the previous year, and that the long-term outlook for ACL is excellent. The bad news is that we still have the Québec Government's unfair expropriation law hanging over our heads and that we have just completed, from an earnings aspect, one of the poorest quarters in the last few years.

I would like to talk about the good news first.

Last year's earnings of \$17.7 million were 13% above the previous year and sales of \$171.8 million were 17% above 1978. These results were attained in a year of serious cost increases, excessive discounting by several fibre producers, negative publicity concerning health relating to the use of asbestos products and the effects of the threatened expropriation of your Company. 1979 earnings were only exceeded in 1976 and 1977, when a severe shortage of fibre occurred following lengthy labour disputes and production interruptions in 1975.

In addition to the excellent financial results in 1979, we are pleased to report that the continuing program to improve working conditions, safety and health in our plants has met our full expectations. For the third year in a row, ACL had the best safety record of all asbestos mines in Québec. Even though our record is excellent, relatively speaking, we are dedicated to achieve further improvement.

This is ironic because, not too long ago, you may recall, we were accused by certain members of the present Government of all sorts of terrible shenanigans — the worst of which was that we had unsafe and environmentally unacceptable plants. In addition, members of the Government even threatened ACL with discriminatory application of rules and regulations concerning safety and health.

Be that as it may, we at ACL are proud of our continuing leadership in matters of safety and proud of the fact that our people have engineered and designed all of the latest technology into our plants, resulting in dust levels well within government requirements. The Québec Government's insinuations that our plants would have to be rebuilt, and therefore are not worth much if expropriated, are utterly false.

The other bit of good news referred to earlier is the long-term market for ACL's fibre. We have explained in the past that 85% of our production capability is in fibre grades used by the asbestos-cement industry. There are over 3,000 products in which asbestos is used but 60% of world consumption of fibre is in the few asbestos-cement products requiring the grades of fibre in which ACL excels. It is obvious, therefore, that ACL's future depends on the future of the worldwide consumption of asbestos-cement products.

In the free world, no new significant mining and production of asbestos-cement grades of fibre is planned in the short to medium term. Mineral deposits or occurrences of asbestos fibre are known to exist in various parts of the world but the best of these deposits would, in our opinion, require a significant real fibre price increase before the decision to proceed with bringing any of these deposits into production

could be made. Competitive products such as ductile iron, concrete and plastic pipe or aluminum and galvanized sheets are four to seven times more energy-intensive than asbestos-cement pipe or sheet. In addition, the evidence is overwhelming that asbestos-cement products are fully environmentally safe because the fibres are locked in. It seems reasonable to assume, therefore, that significant real price increases can be passed on by asbestos-cement producers without losing market share.

What about growth prospects for asbestos-cement products? Market research indicates that, due to the negative publicity concerning the health hazards of asbestos and the fact that industrialized countries prefer more sophisticated — fancier may be a better word — construction materials, consumption of asbestos-cement in the United States and Western Europe has reached its maximum and may gradually decline in future years. However, this essentially static or slightly decreasing demand in the industrialized countries will be more than offset by the requirements of developing countries. We know of new asbestos-cement plants either in operation or being installed in Tunisia, the Middle East, the Philippines, Nigeria, Malaysia, and Sri Lanka to name only a few. There is no more appropriate product than asbestos-cement for a developing country to supply its needs for pipe, siding and roofing.

After pulling all of these facts together — no significant new production of fibre, growing requirements for asbestos-cement products, competitive products at a significant price disadvantage due to their energy content and the environmental issue disappearing as the facts become known — I can think of no other

product or commodity having a more assured long-term future.

The prices of fibre that we believe will prevail in the long term should be sufficient to bring new mines on stream to feed the growing demand at price levels that would not erode market share by competitive non-asbestos products.

Our objective is to foster the growth of the asbestos-fibre-producing industry with strategies that will encourage the growth and usage of asbestos-cement products throughout the world.

Earnings in the first quarter were a loss of \$2.8 million on sales of \$11.9 million compared with earnings of \$3 million and sales of \$43 million in the same period in 1979.

You are no doubt aware that our hourly-rated unionized workers struck our Thetford operations on March 4th.

We were anticipating fairly heavy shipments in March because most customers requested that first quarter deliveries be delayed until the end of the quarter due to unsettled market conditions, high interest rates and shortages of foreign exchange. Previous to the strike, sales for the first quarter were anticipated at about \$30 million.

In addition to the strike and the recessionary conditions in some parts of the world, the threat of expropriation continues to have a negative impact on our markets. Government spokesmen have stated that ACL must be acquired so that a secure source of supply is available to Québec industry and that a lever is needed to attract consumers to establish plants

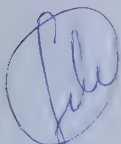
in Québec. Can anyone seriously believe that there could, under any circumstances, be a shortage of supply to Quebec or Canadian consumers with Canada producing 45% of the free world supply? Can anyone really believe that doubling Québec consumption of fibre from 30,000 tons per year to say 60,000 tons per year is jeopardized from a supply aspect with 1,500,000 tons of fibre produced in Québec?

To use the takeover of ACL as a lever to force or attract industry to Québec is a development strategy doomed to failure. If ACL's supply is used to force consumers to do anything, it will force them to secure supplies elsewhere.

If significant assistance is needed to attract new asbestos-consuming facilities to Québec, the Government already has the necessary tools to do so — offer support measures and subsidies on an increasing scale until the level is found at which new consuming industries will be attracted. A planned approach in this manner would be less costly, would improve the investment climate and would allow the Government to monitor the effectiveness of its program.

The Mining Association of Canada in a statement issued in March of 1980 stated: "To realize the potential of the mineral industry, supportive government policies are essential. Increased mineral exploration, development of new mines and innovative advances in technology are all achievable, provided they are not inhibited by an unfavourable regulatory climate". The time has come for the Government of Québec to remove all threats and get on with the job of stimulating a potentially dynamic industry.

May I conclude by repeating, once again, that our doors are still open to considering a reasonable approach to attaining the desirable objectives of further employment and further processing in Québec.



**Société
Asbestos
Limitée**

**Asbestos
Corporation
Limited**



Unaudited statement of income
six months ended
June 28, 1980

SOCIÉTÉ ASBESTOS LIMITÉE
ASBESTOS CORPORATION LIMITED
1940 Sun Life Bldg., 1155 Metcalfe St.,
Montréal, Québec H3B 2X6

Montréal, Québec
August 27, 1980

To the Shareholders:

The unaudited, consolidated comparative statements of earnings and changes in financial position for the six-month period ended June 28, 1980 are submitted herewith.

Earnings in the first six months of 1980 show a loss of \$3.8 million compared with net income of \$8.3 million in the same period last year.

Sales totalled \$39.9 million compared with \$86.3 million in the same period last year. The hourly-rated unionized workers struck our Thetford operations on March 4th and the strike was settled 12 weeks later, May 26th. Sales from our Nordenham operations in West Germany were lower than last year due to high interest rates in several countries, shortages of foreign exchange in less developed countries and the decision of an important European customer to secure 1980 supplies elsewhere. The continued threat of expropriation of all or part of our assets located in Québec continues to be a major concern for customers interested in long-term supply.

On May 26, 1980, the Québec Superior Court ruled that Bill 121, the law giving the Québec Government the right to expropriate assets of ACL, was valid. This decision was immediately appealed by ACL to the Québec Court of Appeal. This appeal has not yet been heard. In mid-June 1980, a judge of the court of Appeal was requested by the Québec Government to lift the interlocutory injunction granted in December 1979. On July 18th, that request was refused. Thus, the injunction, which prevents any expropriation action before the final judgment as to the validity of Bill 121, remains in effect.

Due to these unfavourable factors, the directors decided not to declare a dividend for the 3rd quarter.

M. E. Taschereau
President & Chief Executive Officer

Unaudited consolidated statement of earnings,
subject to year-end adjustment

	Six Months Ended	
	June 28, 1980	June 30, 1979
Sales	\$39,858,800	\$86,256,100
Cost of sales before taking into account the undernoted items	<u>37,135,300</u>	<u>67,592,200</u>
Operating profit	\$ 2,723,500	\$18,663,900
Other income	<u>520,300</u>	<u>795,200</u>
	\$ 3,243,800	\$19,459,100
Provision for depreciation	5,225,500	4,813,400
Provision for depletion	485,100	614,000
Amortization of mine development	269,000	209,000
Interest expense	<u>3,164,300</u>	<u>1,753,600</u>
	\$ 9,143,900	\$ 7,390,000
	\$ (5,900,100)	\$12,069,100
Estimated taxes on income	<u>(2,063,000)</u>	<u>3,741,000</u>
Net income (loss)	<u><u>\$ (3,837,100)</u></u>	<u><u>\$ 8,328,100</u></u>
Earnings (loss) per common share (based on 2,837,002 shares)	\$(1.35)	\$2.93

Unaudited consolidated statement of changes
in financial position

	Six Months Ended	
	June 28, 1980	June 30, 1979
Source of funds:		
From operations —		
Net income (loss) for the period	\$ (3,837,100)	\$ 8,328,100
Depreciation, depletion and amortization	5,989,000	5,645,700
Deferred income taxes	(1,040,000)	1,454,000
Increase in long-term debt	52,900	—
	<u>\$ 1,164,800</u>	<u>\$15,427,800</u>
Application of funds:		
Additions to properties and mine development	\$ 4,936,500	\$12,108,500
Installments due within one year on long-term debt	1,267,100	1,046,300
Dividends — Common	3,404,400	3,404,400
	<u>\$ 9,608,000</u>	<u>\$16,559,200</u>
Decrease in working capital	(8,443,200)	(1,131,400)
Working capital beginning of year	<u>\$70,209,200</u>	<u>\$68,736,100</u>
Working capital end of period	<u>\$61,766,000</u>	<u>\$67,604,700</u>

Etat consolidé non vérifié de l'évolution
de la situation financière

Six mois terminés		
le 28 juin	le 30 juin	
1980	1979	
Provenance des fonds:		
De l'exploitation —		
Bénéfice net (perte)		
de la période		
Amortissement		
et épuisement		
Impôts sur le		
revenu reportés		
Augmentation de		
la dette à		
long terme		
\$ 1 164 800	\$15 427 800	
52 900	—	
Affectation des fonds:		
Acquisition		
d'immobilisations		
et mise en valeur		
de mines		
Portion de la		
dette à long		
terme échéant à		
moins d'un an		
Dividendes —		
actions ordinaires		
\$ 9 608 000	\$16 559 200	
3 404 400	3 404 400	
1 267 100	1 046 300	
\$ 4 936 500	\$12 108 500	
Diminution du fonds		
de roulement		
Fonds de roulement		
à l'ouverture de		
l'exercice		
\$70 209 200	\$68 736 100	
(8 443 200)	(1 131 400)	
\$61 766 000	\$67 604 700	

Etat consolidé non vérifié des bénéfices.
 sous réserve de redressement en fin d'exercice

Six mois terminés		
le 28 juin	le 30 juin	
1980	1979	
\$39 858 800	\$86 256 100	Ventes
		Coût des ventes
		compte non tenu des
		postes ci-dessous
\$ 2 723 500	\$18 663 900	Bénéfice d'exploitation
520 300	795 200	Autres revenus
\$ 3,243 800	\$19 459 100	
		Provision pour
5 225 500	4 813 400	amortissement
		Provision pour
485 100	614 000	épuisement
		Amortissement
		d'aménagement
		minier
269 000	209 000	Frais d'intérêt
3 164 300	1 753 600	
\$ 9 143 900	\$ 7 390 000	
\$ (5 900 100)	\$12 069 100	
		Impôts sur le revenu
(2 063 000)	3 741 000	estimatifs
\$ (3 837 100)	\$ 8 328 100	Bénéfice net (perte)
		Bénéfice (perte) par
		action ordinaire
		(calculé sur
		2 837 002 actions)
\$(1,35)	\$2,93	

Montréal, Québec
le 27 août 1980

Aux actionnaires,

Nous vous présentons ci-après les états consolidés comparatifs non vérifiés des résultats et de l'évolution de la situation financière pour le semestre terminé le 28 juin 1980.

Les résultats du premier semestre montrent une perte de \$3,8 millions par rapport à un bénéfice de \$8,3 millions pour la période correspondante de l'an dernier.

Les ventes ont totalisé \$39,9 millions comparative-ment à \$86,3 millions pour la même période de l'an dernier. Les employés syndiqués rémunérés à l'heure à notre exploitation de Thetford Mines ont débrayé le 4 mars dernier; cette grève s'est terminée douze (12) semaines plus tard, soit le 26 mai. Les taux d'intérêt élevés dans plusieurs pays, une pénurie de devises étrangères dans les pays moins industrialisés et la décision d'un important client européen de s'approvisionner ailleurs en 1980 ont entraîné, par rapport à la même période l'an dernier, une diminution des ventes de notre exploitation de Nordenham en Allemagne occidentale. La menace d'expropriation de la totalité ou d'une partie de nos biens au Québec continue fort d'inquiéter les clients qui veulent s'assurer un approvisionnement à long terme.

Le 26 mai 1980, la Cour supérieure du Québec a décidé que la loi 121 qui donne au gouvernement du Québec le droit d'exproprier les biens de la Société Asbestos était valide. Cette décision fut immédiate-ment portée en appel par la Société Asbestos devant la Cour d'appel du Québec. Cet appel n'a pas encore été entendu. À la mi-juin 1980, le gouvernement du Québec a demandé à un juge de la Cour d'appel de lever l'injonction interlocutoire accordée en décembre 1979. Le 18 juillet cette requête fut rejetée. En conséquence, l'injonction qui interdit toute mesure d'expropria-tion jusqu'au jugement final sur la validité de la loi 121 demeure en vigueur.

Ces facteurs défavorables ont incité les administrateurs à ne pas déclarer de dividende pour le troisième trimestre.

le président et chef de la direction
M. E. Taschereau

AR47

**Société
Asbestos
Limitée**



État non vérifié du revenu
des six mois terminés
le 28 juin 1980

S'il est vraiment nécessaire de prévoir une

aide importante pour attirer au Québec de

nouveaux consommateurs d'amiante, le

gouvernement dispose déjà des outils dont il a

besoin pour le faire: il peut offrir une aide de

subventions progressives jusqu'à ce que soit

atteint le niveau qui attirera les industries

consommatrices. Une bonne planification de ce

genre serait moins coûteuse, améliorerait le

climat des investissements et permettrait au

gouvernement de mesurer l'efficacité de son

programme.

En mars 1980, l'association minière du

Canada déclarait: "Pour que l'industrie des

minéraux réalise son potentiel, il est essentiel

que les politiques des gouvernements la

soutiennent. L'accélération de l'exploration

minière, la mise en valeur de nouvelles mines

et les innovations technologiques sont toutes

très réalisables, à condition qu'elles ne soient

pas entravées par un climat réglementaire

défavorable." Le moment est venu pour le

gouvernement du Québec de lever toutes les

menaces et d'entreprendre la tâche de stimuler

une industrie virtuellement dynamique.

Pour conclure, permettez-moi de répéter une

fois encore que nous restons ouverts à toute

solution raisonnable qui permette d'atteindre

ces objectifs souhaitables que sont la création

d'emplois et d'industries transformatrices au

Québec.

Comme vous le savez certainement, nos travailleurs horaires syndiqués se sont mis en grève à Thetford le 4 mars.

Or, nous avions prévu des expéditions assez fortes pour mars, car la plupart de nos clients nous avaient demandé de retarder leurs livraisons du premier trimestre en raison de l'instabilité du marché, des taux d'intérêt élevés et d'une pénurie de devises. Avant la grève, il avait été prévu que le chiffre d'affaires du premier trimestre serait de l'ordre de \$30 millions.

Outre la grève et le ralentissement de l'activité économique dans certaines parties du monde, la menace d'expropriation continue à avoir des répercussions défavorables sur nos débouchés. Selon les porte-parole du gouvernement, le Québec doit prendre possession de la Société Asbestos afin de garantir les approvisionnements de l'industrie québécoise et d'exercer des pressions sur les entreprises utilisatrices pour qu'elles implantent des usines au Québec. Peut-on croire sérieusement que, quelles que soient les circonstances, les utilisateurs québécois ou canadiens soient exposés à des pénuries d'approvisionnement alors que 45% de la production du monde libre provient du Canada? Peut-on prétendre aussi qu'il est important de garantir les approvisionnements pour doubler la consommation du Québec et la porter, par exemple, de 30 000 à 60 000 tonnes par an, alors que le Québec produit 1 500 000 tonnes de fibre?

Enfin, vouloir se servir de la prise de possession de la Société Asbestos pour forcer les entreprises à s'installer au Québec ou pour les y attirer procède d'une stratégie de développement vouée à l'échec. Si elle parvenait à forcer les utilisateurs à faire quelque chose, ce serait d'aller s'approvisionner ailleurs.

d'amiante-ciment ont ouvert leurs portes ou le feront bientôt, en Tunisie, au Moyen-Orient, aux Philippines, au Nigéria, en Malaisie et au Sri Lanka, par exemple. Aucun autre produit ne convient mieux que l'amiante-ciment pour répondre aux besoins de tuyauterie, de bardeaux et de toitures des pays en voie de développement.

En conséquence, si l'on réunit ces diverses données, à savoir l'absence de nouvelles unités importantes de production de fibre, la croissance de la demande de produits d'amiante-ciment, l'avantage des produits d'amiante-ciment par rapport aux produits concurrents pour ce qui est de la consommation d'énergie, et la disparition du facteur négatif de l'environnement au fur et à mesure que les faits sont mieux connus, il est bien difficile de penser à un autre produit ou une autre matière pour lesquels l'avenir à long terme serait mieux assuré.

Nous croyons qu'à long terme, les prix de la fibre justifieront la mise en valeur des nouvelles mines nécessaires pour répondre à une demande croissante, sans que les produits concurrents de l'amiante-ciment en réduisent les débouchés.

Nous sommes donc déterminés à favoriser le développement de la production d'amiante en appliquant des stratégies qui encourageront l'utilisation de produits d'amiante-ciment dans le monde entier.

Pour le premier trimestre de l'exercice en cours, la Société Asbestos a enregistré une perte de \$2,8 millions sur un chiffre d'affaires de \$11,9 millions, contre un bénéfice de \$3 millions et un chiffre d'affaires de \$43 millions pour la même période de 1979. Pourquoi cette baisse substantielle?

fibres dans lesquelles la Société Asbestos est spécialisée. Il est donc évident que l'avenir de votre entreprise dépend de celui de la consommation mondiale de produits d'amiante-ciment.

Dans le monde libre, aucune nouvelle installation importante d'extraction et de production de fibres de ces catégories n'est prévue à court ou à moyen terme. Sans doute existe-t-il des dépôts ou gisements de fibre d'amiante en divers endroits du monde, mais nous croyons que la mise en exploitation, même des meilleurs de ces gisements, ne peut pas être envisagée tant que le prix réel de la fibre n'aura pas sensiblement augmenté. La fabrication des autres produits concurrents, tels que les tuyaux en fer ductile, béton ou plastique et la tôle en aluminium ou galvanisée, nécessite de quatre à sept fois plus d'énergie que celle des tuyaux ou plaques d'amiante-ciment. Par ailleurs, il est aujourd'hui bien établi que les produits d'amiante-ciment ne posent aucun problème de santé. Il est donc raisonnable de conclure que toute augmentation importante du prix réel pourra être répercutée par les produits d'amiante-ciment sans en diminuer la part du marché.

Mais quelles sont les perspectives de croissance des débouchés des produits d'amiante-ciment? Les enquêtes de commercialisation révèlent que, en raison de la publicité défavorable sur les dangers auxquels l'amiante expose la santé, et du fait que les pays industrialisés préfèrent des matériaux de construction plus nobles — pour ne pas dire plus luxueux — la consommation d'amiante-ciment aux États-Unis et en Europe occidentale a maintenant plafonné et pourrait baisser progressivement à l'avenir. Mais cette stagnation ou fléchissement léger de la demande dans les pays industriels sera très largement compensée par les besoins croissants des pays en voie de développement. Nous savons que de nouvelles usines

usines a atteint tous les objectifs fixés. Pour une troisième année de suite, la Société Asbestos s'est classée, pour la sécurité, au premier rang de toutes les mines d'amiante du Québec. Même si, par comparaison, nos résultats sont excellents, nous sommes déterminés à réaliser d'autres améliorations.

L'ironie de cette situation est que, il n'y a pas bien longtemps, comme vous souviendrez peut-être, certains membres du présent gouvernement nous avaient accusés de toutes sortes de manigances épouvantables, dont la pire était d'avoir des usines dangereuses et des conditions d'environnement intolérables. Certains membres du gouvernement avaient même menacé la Société Asbestos d'une application discriminatoire des règlements touchant la sécurité et la santé au travail.

Quoi qu'il en soit, nous sommes très fiers de notre tradition de leadership en matière de sécurité, d'autant plus que nos ingénieurs ont réussi à installer toutes les technologies les plus récentes qui ont permis à nos usines de réduire les concentrations de poussière à des niveaux nettement inférieurs aux normes du gouvernement. Les insinuations du gouvernement du Québec, quand il prétend que nos usines devraient être reconstruites et ne valent donc pas grand-chose en cas d'expropriation, sont donc sans aucun fondement.

L'autre bonne nouvelle que je mentionnais tout à l'heure touche les perspectives à long terme de la demande pour les fibres de la Société Asbestos. Comme nous l'avons déjà expliqué, 85% des fibres que nous pouvons produire sont du type qu'utilise l'industrie de l'amiante-ciment. L'amiante entre dans la composition de plus de 3 000 produits différents, mais 60% de la consommation mondiale de fibres est attribuable à la fabrication de quelques produits d'amiante-ciment qui utilisent les catégories de

**Commentaires de
M. Maurice E. Taschereau, président,
Société Asbestos Limitée**

C'est avec plaisir que je vous accueille tous à la 54ième assemblée annuelle des actionnaires de la Société Asbestos Limitée.

C'est à moi qu'il revient de vous annoncer aujourd'hui diverses nouvelles, certaines bonnes, d'autres qui le sont moins. Les bonnes nouvelles sont que les résultats de l'année dernière, que vous connaissez déjà, sont en nette amélioration par rapport à l'année 1978, et que, à long terme, les perspectives de la Société Asbestos sont excellentes. Pour ce qui est des mauvaises nouvelles, l'injuste loi d'expropriation adoptée par le gouvernement du Québec continue de nous menacer. Par ailleurs, nous venons de terminer, du point de vue du bénéfice, l'un des plus mauvais trimestres que nous ayons connus depuis plusieurs années.

Reprenons d'abord les bonnes nouvelles.

Le bénéfice de l'année dernière, à \$17,7 millions, dépasse de 13% celui de 1978 et le chiffre d'affaires, à \$171,8 millions, a été de 17% supérieur à celui de 1978. Ces résultats ont été atteints malgré une forte augmentation des coûts, des rabais excessifs consentis par plusieurs autres producteurs de fibres, une publicité défavorable sur les effets de l'amiante sur la santé, et les conséquences de la menace d'expropriation de votre société. Le bénéfice de 1979 n'a été dépassé qu'en 1976 et 1977, alors qu'une grave pénurie de fibres s'était produite à la suite des conflits ouvriers et des interruptions de production en 1975.

Outre les excellents résultats financiers de 1979, j'ai la satisfaction de vous dire que notre programme d'amélioration des conditions de travail, de la sécurité et de la santé dans nos

meilleur citoyen corporatif de l'industrie. De plus, la Société Asbestos est la seule compagnie de l'industrie de l'amiante dans laquelle les Québécois détiennent des intérêts. Permettez-moi maintenant de passer la parole à M. Taschereau, président et chef de la direction de votre société, qui vous fournira de plus amples détails sur la situation actuelle et les perspectives prometteuses de l'entreprise.

Avant octobre 1979, je m'étais entretenu à plusieurs reprises avec M. Parizeau, le ministre des Finances. Diverses autres possibilités lui avaient été suggérées, entre autres celle d'exploiter de nouveaux gisements d'amiante par le biais d'entreprises en participation, et celle de collaborer à la réalisation de deux projets précis de transformation de l'amiante qui nous semblaient viables. En outre, General Dynamics a proposé un plan général permettant au gouvernement d'acquiescer progressivement une participation majoritaire dans la Société, avec tous les avantages que cela implique. De tous ces entretiens, il ressort très clairement que le gouvernement est déterminé à acquiescer les actions ordinaires de la Société Asbestos à un prix grossièrement sous-évalué. Aucune négociation sérieuse n'a eu lieu sur ces possibilités, pourtant constructives et intéressantes.

Depuis trois ans, en dépit de la situation très difficile dont je viens de parler, les résultats financiers de la Société Asbestos ont été excellents.

Malheureusement, ceux du premier trimestre de cette année n'ont pas été aussi brillants, en raison d'une grève, qui est maintenant rendue à sa 1^{re} semaine, et d'une baisse du chiffre d'affaires découlant de ce que nos concurrents Québécois n'ont pas suivi nos augmentations de prix. Or, de toute évidence, ces augmentations sont inévitables pour toute l'industrie, pour compenser la hausse des coûts provoquée par l'inflation. La plupart des autres exploitants transforment la fibre, ce que nous ne faisons pas; nous pouvons donc supposer qu'ils réalisent leurs bénéfices ailleurs. Les nôtres sont réalisées ici même, et ils contribuent très directement, par l'impôt, au bien-être de la province. Ils ne sont pas détournés par le biais de la transformation à l'étranger et je crois qu'il est temps pour le gouvernement du Québec de reconnaître que la Société Asbestos est le

Dans les événements des deux dernières années, je ne vois rien que la Société Asbestos aurait pu faire de plus pour satisfaire les exigences du gouvernement du Québec, si ce n'est de pousser ses actionnaires à vendre à un prix dérisoire. Le gouvernement du Québec a refusé d'examiner diverses autres possibilités avantageuses, et inexorablement forcé la Société à demander la protection de ces seuls défenseurs des droits de tous les citoyens que sont les tribunaux.

En décembre 1979, la Cour d'appel du Québec ordonnait au gouvernement, par une injonction interlocutoire, de s'abstenir de toute manœuvre d'expropriation de la Société Asbestos avant la décision finale sur la contestation de la validité et de la constitutionnalité de la loi visant à exproprier tout ou partie des biens de la Société. Le mois dernier, cette cause a été entendue par l'honorable Jules Deschênes, juge en chef de la Cour supérieure du Québec, dont la décision n'a pas encore été annoncée.

Juridiquement, voilà donc où en sont les choses. Et les négociations entre les deux parties?

Vous vous souviendrez sans nul doute que l'an dernier, à la même époque, le gouvernement avait déposé à l'Assemblée nationale le projet de loi d'expropriation de la Société Asbestos; ce projet a été présenté en deuxième lecture peu de temps après. Le 22 juin 1979, le projet de loi d'expropriation était adopté par l'Assemblée nationale. Le 21 septembre 1979, le gouvernement a officiellement offert à General Dynamics \$42 pour chacune de ses actions de la Société Asbestos. Le 4 octobre 1979, le Conseil d'administration de General Dynamics refusait cette offre, ajoutant qu'elle était "dénuée de tout mérite". Depuis, les discussions sur la vente des actions n'ont pas repris.

**Commentaires de M. Guy W. Fiske,
président du conseil
d'administration,
Société Asbestos Limitée**

C'est un plaisir pour moi de vous souhaiter, au nom de la Société Asbestos Limitée, la bienvenue à la 54^e assemblée générale annuelle des actionnaires. Je suis Guy Fiske, président du conseil de votre société.

Notre président et chef de la direction, M. Maurice Taschereau, vous présentera tout à l'heure une rétrospective sur l'exploitation, ainsi que les résultats financiers de la Société Asbestos pour 1979 et le premier trimestre de 1980.

Pour moi, je veux plutôt vous parler de la menace d'expropriation que le gouvernement du Québec fait peser sur votre société et des réflexions qu'elle me suggère. Il y a maintenant trois ans que nous battons pour empêcher la mainmise du gouvernement provincial sur notre entreprise; nous voulons croire que nos efforts auront été de quelque utilité pour d'autres sociétés du Québec (ainsi que du Canada), et peut-être contribué à la défense de la liberté d'entreprise.

À notre assemblée générale de mai 1979, je vous avais donné les raisons pour lesquelles General Dynamics refusait de se départir de ses intérêts dans la Société Asbestos. Mes explications d'alors gardent toute leur actualité: la Société est une entreprise intéressante, dont la croissance et les progrès remarquables n'ont pas d'équivalent dans l'industrie minière de l'amiante au Québec. Par ailleurs, j'avais alors évoqué les motifs avancés par le gouvernement pour justifier sa menace d'expropriation, et je vous avais expliqué en quoi celle-ci serait contraire aux intérêts de nos travailleurs et de nos actionnaires, et de toute la société québécoise. Tout le monde a maintenant pu se rendre compte que le projet du gouvernement québécois est néfaste pour le Québec entier.

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Commentaires de
M. Guy W. Fiske
président du conseil
d'administration et
M. Maurice E. Taschereau,
président,
Société Asbestos Limitée
à l'assemblée générale
spéciale et annuelle
des actionnaires
Montréal, Québec
le 7 mai 1980

ASBESTOS

SOCIÉTÉ ASBESTOS LIMITÉE
1940, édifice Sun Life, 1155, rue Metcalfe,
Montréal, Québec H3B 2X6

To our Shareholders:

In 1980, sales dropped 33% from 1979. The greatest impact was due to a three-month strike at our Thetford Mines operations, from March through May, but other problems also reduced sales and earnings during the year. These were: the recessionary conditions in the United States and Western Europe; very high interest rates which discouraged buying; a shortage of hard currencies in several developing countries; the effects of negative publicity concerning environmental issues; and the threat of expropriation by the Government of Québec with its consequent effect on sales, heavy legal costs and reduced efficiency by diversion of effort.

As a result of these circumstances, earnings in the first half showed a loss of \$3.8 million. In the second half, a profit of \$6.3 million was generated, resulting in earnings of \$2.5 million for the year. Second-half earnings included foreign exchange gains of \$3.5 million.

While 1981 is expected to show improvement, many of the adverse conditions experienced in 1980 are continuing. However, over the longer term, prospects remain highly favorable, with market research indicating continued increasing demand for asbestos-cement grades of fibre (85% of ACL's production is suitable for asbestos-cement). In the Free World, no new significant production of asbestos-cement grades of fibre is forecast for the next few years and Russia appears to require

most of its production for internal consumption. Competitive products such as ductile iron, concrete and plastic pipe or aluminum and galvanized sheet cost more and require four to seven times more energy to produce than asbestos-cement pipe or sheet.

The fully industrialized countries seem, nevertheless, to prefer more sophisticated products and while their asbestos-cement consumption level may well decrease, it appears that any reduction in demand will be more than offset by the growing requirements of the developing countries. There is no better product than asbestos-cement to meet the anticipated demand in vast areas of the world for siding and roofing in residential, commercial and industrial buildings and piping for irrigation, sewage, fresh water and drainage systems.

This demand, the strong financial position of the Corporation and its extensive ore reserves of excellent quality fibre, as well as its technical expertise, place Asbestos Corporation in an excellent position for the future.

Net Income

Net income in 1980 was \$2,528,000 (\$0.89 per share), compared with \$17,662,000 (\$6.22 per share) in 1979.

Revenues of \$114,400,000 in 1980 were 33% lower than in 1979 due to the strike, economic conditions and the threatened expropriation of your Corporation.

Operating costs were \$41,669,000 (28%) lower in 1980 than in 1979 due primarily to the strike. Interest expense more than doubled from \$3,784,000 in 1979 to \$7,699,000 in 1980 due to increased bank borrowings and higher interest rates. The provision for income taxes is low at \$200,000 (\$5,314,000 in 1979) because Thetford operations incurred a loss and certain foreign exchange gains were not taxable.

Financial Position

Funds generated from operations totalled \$15,541,000 in 1980. Additions to properties and mine development amounted to \$12,698,000. Installments on long-term debt were \$3,781,000 and dividends paid were \$3,404,000. Working capital thus was decreased by \$4,295,000 to \$65,914,000.

Long-term debt at year-end was \$20,758,000, resulting in a long-term debt-to-equity ratio of 0.13 to 1. Short-term indebtedness was \$61,352,000 at year-end. Asbestos and ungraded fibre inventories, valued at the lower of cost to produce or selling price, totalled \$87,739,000. Reduced work schedules were instituted in late 1980 and will remain in effect until the anticipated market improvement occurs. In addition, aggressive action is being taken to reduce costs and inventories.

Sales and Markets

Revenue from sales was \$114,400,000, compared with the record \$171,788,000 in 1979.

The drop in sales revenue occurred almost entirely in the first half of the year. Customers delayed purchases in January and February as they worked down year-end inventories. Then our Thetford operations were on strike for three months and our customers were able to satisfy their requirements elsewhere. In addition, it became apparent that this was an opportunity for some customers to diversify their sources of supply away from the threat of expropriation.

Effective January 1, 1981, competitor list prices for various fibre grades were increased by 10% to 14%. ACL's list prices were raised to equivalent levels. It is apparent that our competitors feel as we do — that there is buyer resistance due to high interest rates and unsettled economic conditions, but that market fundamentals indicate a close balance in the demand and supply of high-quality asbestos-cement grades of fibre. Sales in 1981 should improve significantly.

Ore Reserves

Proven ore reserves at year-end were as follows:

	<u>1980</u>	<u>1979</u>
	(thousands of tons)	
King Beaver mine	83,972	83,634
British Canadian mine	71,937	75,101
Normandie mine	31,639	31,639
Asbestos Hill mine	15,683	20,838
Others	<u>17,920</u>	<u>17,920</u>
	221,151	229,132

Approximately 8.5 million tons of ore were mined in Thetford and Asbestos Hill in 1980. At Asbestos Hill, 3.3 million tons of proven ore were reclassified as

probable and at King Beaver, 3.6 million tons of probable ore were reclassified as proven following additional diamond drilling and detailed mine planning.

In addition to the proven ore reserves, there are probable and possible reserves of approximately 250 million tons.

Operations

A comparison of operating statistics during the last two years follows:

	<u>1980</u>	<u>1979</u>
	(tons)	
Thetford Mines		
Rock mined	22,315,000	26,671,000
Ore crushed	6,839,000	9,209,000
Asbestos produced	158,200	219,600
Asbestos Hill-Nordenham		
Rock mined	6,765,000	7,102,000
Ore crushed	1,748,000	1,620,000
Ungraded fibre produced	286,200	262,800
Asbestos produced	82,000	92,000

As noted previously, Thetford Mines operations were shut down for twelve weeks in March, April and May due to a strike by hourly-rated unionized employees. In addition, operations were suspended from December 21, 1980 until January 26, 1981. During the year, a severe cost reduction program was implemented.

At Asbestos Hill, Nordenham and head office, further economies, including reduced work schedules, have been instituted.

The Expropriation Issue

In October 1977, the Premier of Québec announced the

Government's intention to acquire control of Asbestos Corporation either by acquiring General Dynamics' 54.6% majority interest in the Corporation or by expropriation. General Dynamics made it clear that it did not wish to dispose of its holdings in this valuable resource corporation but, as a matter of practicality, it would be willing to negotiate the matter with the Québec Government with the hope of finding a solution that could be satisfactory to the shareholders, the employees and the people of Québec.

In our Annual Reports of 1978 and 1979, the reasons why expropriation would work to the disadvantage of the Corporation, its shareholders and employees and the people of Québec were presented. These same reasons still apply and it is not our intention to repeat them here, but rather to outline the legal situation as it now stands.

On May 26, 1980, the Québec Superior Court ruled that Bill 121, the expropriation legislation, and Bill 70, which established the Government company, Société nationale de l'amiante, were valid. This decision was immediately appealed by the Corporation to the Québec Court of Appeal. On March 4, 1981, the Court of Appeal ruled that the legislation was valid and lifted the interlocutory injunction that prevented any expropriation action by the Government of Québec. ACL immediately requested leave to appeal this decision to the Supreme Court of Canada but this permission was

refused by the Supreme Court on March 16, 1981.

Asbestos Corporation will continue to take appropriate action to defend the rights and interests of all its shareholders.

Environmental Issues

Sufficient medical evidence is now available for regulatory authorities to initiate environmental regulations and standards that will permit the continued growth of the asbestos industry with, to all intents and purposes, no risk to the workers nor to the general public.

In-depth medical and epidemiological studies of thousands of workers exposed to varying dust levels for 20 to 40 years have been completed (British Journal of Industrial Medicine — 1980, Vol. 37-11). The results of these studies show that at dust levels of 20 fibres per cc and exposure over 20 years, it would be difficult to establish an increase in risk.

ACL, and most of its competitors and customers, have already met or are below 2 fibres per cc in plant operations — 10 times lower than what is considered a minimal risk level.

We are convinced that workers in our industry and the general public can be protected from all risks associated with asbestos dust through the application of appropriate regulations and work methods. We are committed to providing the best possible working conditions in our plants and to provide pertinent

information to our employees, clients and the general public. In addition, we continue to provide significant support for further in-depth medical research and make the results of this work available to all concerned.

General

Dividends amounted to \$1.20 per share in 1980 compared with \$2.40 per share in 1979. Following the difficult period in the first half of 1980, dividends were suspended for the third and fourth quarters.

We deeply regret the untimely death of M. P. Carson. Mr. Carson was Executive Vice-President and a Director of ACL for several years. During his twenty years of service, he made a significant contribution to the Corporation's well being and was a most respected and able Officer. His sound advice, concern and contribution to the Corporation and its employees will be greatly missed.

We are pleased to announce that Mr. G. A. McCammon, Vice-President — Finance, was named to the Board of Directors in November.

Serious and complex economic, market, labour and political difficulties came together in 1980. These challenges were met in a professional and business-like manner. Many significant cost reduction measures were taken for the long-term good of the Corporation, its employees and shareholders.

These actions, and the sustained and dedicated efforts of our employees, have placed ACL in a strong competitive position to take advantage of the market recovery that we anticipate will occur in the months and years to come.

G. W. Fiske
Chairman

M. E. Taschereau
President and Chief Executive Officer

Montréal, Québec
March 9, 1981

Société Asbestos Limitée
Asbestos Corporation Limited and Subsidiary Companies

**Consolidated
Balance Sheet**

ASSETS

December 31

1980

1979

Current assets:

Cash	\$ 310,115	\$ 176,507
Accounts and bills receivable (Note 2)	33,490,466	39,923,582
Inventories (Notes 2 and 3)	109,640,482	72,046,600
Prepaid taxes, insurance, etc	8,437,224	4,476,647
	<u>151,878,287</u>	<u>116,623,336</u>

Properties, at cost less depreciation
and depletion (Notes 4 and 5)

127,853,143	130,182,339
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**Unamortized exploration and
mine development** (Note 5)

28,277,200	24,252,826
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Other assets

757,743	899,630
<u>\$308,766,373</u>	<u>\$271,958,131</u>

LIABILITIES

Current liabilities:

Bank indebtedness (Note 2)	\$ 61,352,495	\$ 15,904,219
Accounts payable and accrued liabilities	17,090,773	22,921,544
Amount due to an affiliated company	53,569	124,840
Income and other taxes	2,678,905	3,465,602
Installments due within one year on long-term debt (Note 6)	4,788,134	3,997,934

85,963,876	46,414,139
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Long-term debt (Note 6)

20,758,465	24,492,493
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Deferred income taxes

45,613,000	43,744,000
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Shareholders' equity:

Capital stock (Note 7) —

Preferred shares —

Authorized and unissued —

unlimited shares of no par value
issuable in series

Common shares —

Authorized — unlimited shares of
no par value

Outstanding — 2,837,002 shares

33,311,682	33,311,682
------------	------------

Retained earnings (Note 8)

123,119,350	123,995,817
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156,431,032	157,307,499
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Contingencies (Notes 11 and 12)

<u>\$308,766,373</u>	<u>\$271,958,131</u>
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Approved by the Board:

Guy W. Fiske, Director

M. E. F. ..., Director

**Consolidated
Statement of Income
and Retained
Earnings**

	Year ended December 31	
	1980	1979
Sales	\$114,400,076	\$171,787,934
Cost of sales, selling, general and administrative expenses	104,782,749	146,451,360
Operating profit before taking into account the undernoted items	9,617,327	25,336,574
Interest and other income	809,979	1,422,914
	10,427,306	26,759,488
Interest expense —		
Long-term debt	\$3,022,921	\$2,918,946
Short-term debt	4,676,450	864,890
	7,699,371	3,783,836
	2,727,935	22,975,652
Provision for income taxes (Note 1)	200,000	5,314,000
Net income (per share: 1980 — \$0.89; 1979 — \$6.22)	2,527,935	17,661,652
Retained earnings, January 1	123,995,817	113,142,970
	126,523,752	130,804,622
Dividends paid (per share: 1980 — \$1.20; 1979 — \$2.40)	3,404,402	6,808,805
Retained earnings, December 31	\$123,119,350	\$123,995,817

**Consolidated
Statement of
Changes in
Financial Position**

	Year ended December 31	
	1980	1979
Source of funds:		
Net income	\$ 2,527,935	\$ 17,661,652
Depreciation, depletion and amortization (Note 5)	11,144,330	10,736,234
Deferred income taxes	1,869,000	2,262,000
Funds from operations	15,541,265	30,659,886
Net increase in long-term debt	47,026	3,684,593
	15,588,291	34,344,479
Application of funds:		
Addition to properties and mine development	12,697,621	23,316,976
Installments due within one year on long-term debt (Note 6)	3,781,054	2,745,624
Dividends paid	3,404,402	6,808,805
	19,883,077	32,871,405
Increase (decrease) in working capital	(4,294,786)	1,473,074
Working capital, January 1	70,209,197	68,736,123
Working capital, December 31	\$ 65,914,411	\$ 70,209,197

Société Asbestos Limitée and Subsidiary Companies Asbestos Corporation Limited

Notes to Consolidated Financial Statements December 31, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation —

The consolidated financial statements include the accounts of the Corporation and subsidiaries, all of which are wholly-owned. All inter-company items and transactions are eliminated on consolidation.

Translation of foreign currencies —

Asset and liability accounts in currencies other than Canadian are translated into Canadian dollars at year-end rates of exchange except that certain inventories, fixed assets (and related depreciation) and long-term debt are at rates prevailing at dates of production, acquisition or borrowing. Income and expense accounts, except certain inventories and depreciation, are translated at average rates prevailing during the year. A net exchange gain of \$4,374,018 has been recorded as a reduction in cost of sales in 1980 (1979 — a net loss of \$132,476).

Inventories —

Asbestos and ungraded fibre are stated at the lower of cost and estimated net realizable value; supplies are stated at cost.

Properties —

Properties including mine development expenditures are stated at cost less applicable depreciation, depletion and amortization. The provisions for depletion of mineral areas and amortization of mine development expenditures are calculated so as to write off the cost of the assets on the unit-of-production method based on the recoverable ore as estimated by Corporation management. The provision for depreciation of plant and equipment, including assets under capital leases, roads and marine structures is calculated on a straight-line basis over a period which is the shorter of the estimated useful life of the asset or of the related orebody.

Income taxes —

Provision is made for deferred income taxes resulting from deducting certain expense items for tax purposes (principally depreciation and mine development expenditures) in periods different from those used for financial reporting and the deferral of taxes in respect of gains on disposal of fixed assets. Investment tax credits reduce income taxes as realized. Losses of some DM 9,000,000 (which at year-end rate of exchange is equivalent to \$5,446,800) are available to the German subsidiary for offset against future profits. The potential tax benefit will be reflected in earnings when realized.

2. BANK INDEBTEDNESS:

The accounts receivable and fibre inventories of the Corporation's German subsidiary have been pledged as collateral against German bank indebtedness of DM 29,800,000 (equivalent to \$18,035,000 at year-end rate of exchange).

3. INVENTORIES:

	1980	1979
Asbestos	\$ 53,160,699	\$ 22,783,364
Ungraded asbestos fibre	34,578,830	29,250,199
Supplies	21,900,953	20,013,037
	<u>\$109,640,482</u>	<u>\$ 72,046,600</u>

4. PROPERTIES, AT COST LESS DEPRECIATION AND DEPLETION:

	1980	1979
Thetford Mines, Québec —		
Land and mineral areas	\$ 10,089,260	\$ 10,014,062
Less: Accumulated depletion	<u>7,825,815</u>	<u>7,690,145</u>
	2,263,445	2,323,917
Plant and equipment	105,069,860*	99,685,385
Less: Accumulated depreciation	<u>51,881,581</u>	<u>48,542,645</u>
	53,188,279	51,142,740
	<u>55,451,724</u>	<u>53,466,657</u>
Ungava, Québec —		
Mining leases and exploration costs	13,717,000	13,717,000
Less: Accumulated depletion	<u>4,628,857</u>	<u>3,979,687</u>
	9,088,143	9,737,313
Plant and equipment, roads and marine structures	82,436,456	80,530,027
Less: Accumulated depreciation	<u>32,461,283</u>	<u>27,586,555</u>
	49,975,173	52,943,472
Less: Credit arising on exchange of common shares for mining leases	<u>2,088,699</u>	<u>2,088,699</u>
	56,974,617	60,592,086
Nordenham, West Germany —		
Plant and equipment and marine structures	25,952,969	25,332,939
Less: Accumulated depreciation	<u>11,063,878</u>	<u>9,648,453</u>
	14,889,091	15,684,486
Land	537,711	439,110
	<u>15,426,802</u>	<u>16,123,596</u>
	<u>\$127,853,143</u>	<u>\$130,182,339</u>

*Includes equipment of \$3,845,631 acquired under capital leases.

5. DEPRECIATION, DEPLETION AND AMORTIZATION:

	<u>1980</u>	<u>1979</u>
Provision for depreciation	\$ 10,044,777	\$ 9,148,752
Provision for depletion	784,841	1,156,767
Amortization of exploration and mine development	314,712	430,715
	<u>\$ 11,144,330</u>	<u>\$ 10,736,234</u>

6. LONG-TERM DEBT:

	<u>1980</u>	<u>1979</u>
9¾% Sinking fund debentures Series A maturing July 15, 1990. Annual sinking fund requirements are \$1,000,000. Debentures in the face amount of \$112,000 have been purchased in anticipation of requirements	\$ 12,888,000	\$ 12,888,000
Secured bank loans under credit agreements for West German DM 20,050,000 due DM 3,425,000 through 1986 at various rates of interest ranging annually from 6% to 10¼%	6,238,798*	7,304,528
Obligation under capital leases payable \$670,484 annually including interest at 9.3% through 1987	3,403,374	3,684,593
Balance of special assessment of la Commission de la santé et de la sécurité du travail payable annually with interest at 8% through 1982	2,009,347	3,360,996
	<u>24,539,519</u>	<u>27,238,117</u>
Less: Installments due within one year included in current liabilities (equivalent, after conversion of German portion at year-end rate of exchange, to \$4,788,134; 1979 — \$3,997,934)	3,781,054	2,745,624
	<u>\$ 20,758,465</u>	<u>\$ 24,492,493</u>

*The Canadian dollar equivalent has been expressed at the exchange rate prevailing at the dates of borrowing. If translated at the exchange rate prevailing at December 31, 1980 the Canadian dollar equivalent of this debt, after deducting the installment due in 1981, would be increased by \$4,888,382 (1979 — \$7,331,042).

7. CAPITAL STOCK:

Effective December 11, 1980 the Corporation was continued under the Canada Business Corporations Act and the Articles of Continuance provided that the Corporation is authorized to issue an unlimited number of common and preferred shares.

8. DIVIDEND RESTRICTIONS:

Pursuant to certain provisions of the trust agreement relating to the 9¾% sinking fund debentures \$27,805,174 of the retained earnings of \$123,119,350 at December 31, 1980 is not available for the payment of cash dividends on the common shares.

9. PENSIONS:

The unfunded past service liability under the Corporation's pension plans as at December 31, 1980 is estimated to be \$4,975,000. The Corporation intends to pay and to charge operations with the foregoing amount over a period which will not extend beyond the year 1993 as permitted by applicable legislation.

10. SEGMENTED INFORMATION:

The Board of Directors has determined that the Corporation's operations represent only one industry segment comprising mining, milling and selling asbestos fibre. The Corporation does business from two geographic segments, Canada and West Germany.

Canadian operations include the mining of ore as well as four primary mills and three finishing mills. The West German operations consist of a single finishing mill.

As the West German finishing mill is entirely dependent on the supply of ungraded fibre from the Canadian operations, segmented information additional to that provided in the Corporation's annual report would not be meaningful.

11. LITIGATION:

Numerous actions have been filed in the United States by employees or former employees of users of asbestos against suppliers of asbestos fibre and asbestos products, claiming impaired health as a result of long-term exposure to asbestos fibre. The Corporation is named as a defendant in some of these cases along with numerous other suppliers of asbestos fibre and manufacturers of asbestos products. The Corporation denies all liability in these actions. Many are still in their early stages and all are being vigorously contested. Although the damages sought in these cases aggregate to very large amounts, insurance is available to cover a substantial portion of whatever amounts, if any, might ultimately be assessed by judgement against the Corporation.

12. POSSIBLE EXPROPRIATION OF THE CORPORATION'S PROPERTIES:

On October 21, 1977, the Government of Québec announced its intention to acquire control of the Corporation, initially through the purchase of General Dynamics Corporation's 54.6% shareholding and subsequently, through the acquisition of all other shares. Since this announcement separate studies were commissioned by the Government and General Dynamics to value the shares of the Corporation. The conclusions reached in these studies differ substantially.

On September 21, 1979, a formal offer of \$42 per share was made to General Dynamics for its shares. General Dynamics' Board of Directors unanimously rejected this offer.

On June 22, 1979, the National Assembly of Québec passed Bill 121 which contains provisions which would enable the Government of Québec to expropriate some or all of the Corporation's assets for the account of the Société nationale de l'amiante, the Government company previously established by Bill 70. On the same day the Corporation filed suit in the Superior Court of the Province of Québec asking that Bill 121 and Bill 70 be declared null on the basis that they are unconstitutional and beyond the legislative power of the National Assembly of Québec. Any action to expropriate before the final determination by the courts of the validity of the legislation was prevented by an interlocutory injunction issued on December 13, 1979 by the Québec Court of Appeal. On May 26, 1980, the Québec Superior Court ruled that Bill 121 and Bill 70 were valid. This decision was confirmed by the Québec Court of Appeal on March 4, 1981 and became final on March 16, 1981 when the Supreme Court of Canada refused the Corporation's motion for leave to appeal.

In the event that (1) the Government proceeds with expropriation and (2) the Corporation and the Government are unable to agree on the indemnity payable, it will be fixed by a board of arbitration composed of three members. One member of the board will be appointed by the Société nationale de l'amiante (the company organized by the Government to own and operate its interest in the asbestos industry), another by the Corporation and the third, who will be chairman, will be appointed by the Government on the joint recommendation of the other two members; he will be chosen from among the judges of the Provincial Court or of the Court of Sessions of the Peace sitting on the Expropriation Tribunal. Bill 121 provides that the indemnity will be computed "according to the fair market value of the property established in relation to its continued operation at the time the Société became the owner thereof".

The Corporation believes that any amount received for its properties should and must be significantly in excess of the book values set forth in the Corporation's balance sheet and that the present threat of expropriation, if realized, should not result in any impairment of its overall consolidated financial position. The Corporation's opinion is based, among other things, upon the following factors:

1. The present fair value of its fixed assets is approximately double the depreciated cost shown in the accompanying balance sheet;
2. The low book value at which its proven and developed orebodies are shown in the accounts (approximately 15 cents per ton);
3. The value of its on-going organization, including expertise in general management, operations, mining engineering, sales, finance, etc.;
4. The Corporation's studies which show that tax reserves presently provided are adequate for any taxes that might be required if an amount equivalent to the book values set forth on its balance sheet was received.

Auditors' Report

To the Shareholders of
Société Asbestos Limitée —
Asbestos Corporation Limited:

We have examined the consolidated balance sheet of Société Asbestos Limitée — Asbestos Corporation Limited as at December 31, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

January 30, 1981
except for note 12 for
which the date is
March 26, 1981

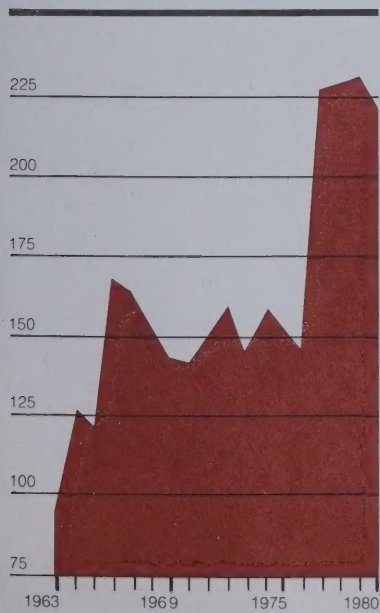
Chartered Accountants

Société Asbestos Limitée Asbestos Corporation Limited and Subsidiary Companies

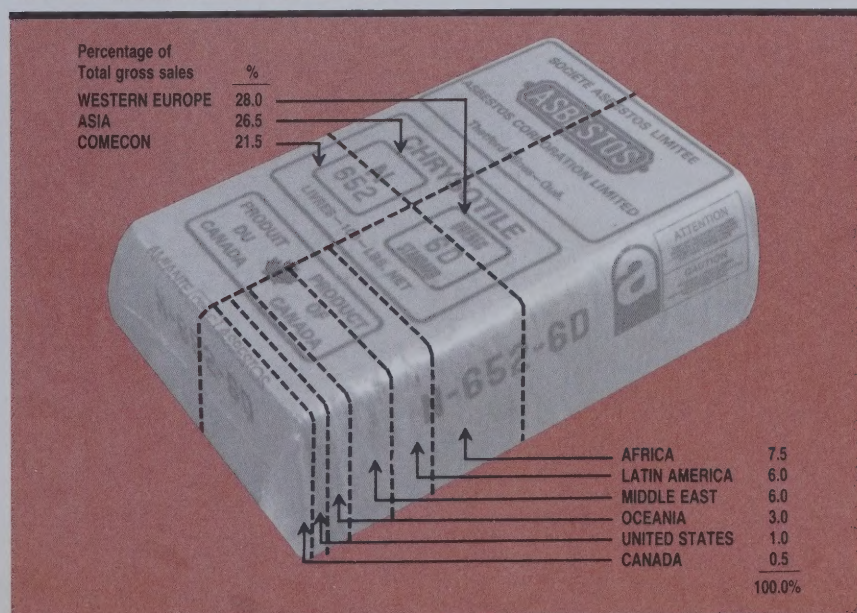
10 Year Summary (thousands of dollars except where noted)

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Sales	\$114,400	\$171,788	\$147,087	\$145,344	\$151,368	\$ 84,834	\$108,475	\$ 66,209	\$ 49,521	\$ 52,320
Income before taxes	2,728	22,976	19,046	38,413	40,210	14,334	21,142	1,381	2,117	9,955
Provision for taxes on income	200	5,314	3,395	17,392	19,788	6,720	9,635	650	741	3,748
Income after taxes and extraordinary items	2,528	17,662	15,651	21,021	20,422	14,239	11,850	1,706	1,376	6,157
Earnings per common share (assuming conversion of preferred stock)	0.89	\$6.22	\$5.51	\$7.40	\$7.19	\$5.01	\$4.17	\$0.60	\$0.48	\$2.17
Dividends paid per common share	1.20	\$2.40	\$2.40	\$1.60	\$1.25	—	—	—	\$0.45	\$1.00
Paid to shareholders as dividends — common shares	3,404	6,809	6,809	4,539	3,546	—	—	—	1,277	2,837
Depreciation and depletion	10,830	10,306	11,718	10,882	9,888	9,037	8,831	7,377	4,605	3,338
Total assets	308,766	271,958	259,334	228,676	220,093	191,680	176,575	166,313	162,074	143,580
Paid to employees during the year	57,653	61,276	52,670	48,828	41,231	23,899	31,188	26,422	22,890	20,586
Number of employees at year-end	1,906	2,331	2,389	2,351	2,268	2,113	1,798	2,421	2,386	2,324
Number of common shareholders at year-end	1,926	2,092	2,150	2,280	2,640	2,948	3,307	3,549	3,794	3,973

Proven ore reserves (millions of tons at year-end)



Asbestos Corporation Limited WORLDWIDE SALES OF FIBRE 1980





Helping to build
a better world